

The Progressive Cost
of
Workmen's Compensation



AN OPINION
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THE PROGRESSIVE COST OF WORKMEN'S COMPENSATION.

Does the cost of a workmen's compensation law normally increase from year to year? In other words, is it vain to seek for a fixed rate at which to insure the compensation loss, because in practice that rate to be proper for each year must be raised with approximate regularity from year to year? The following data have been collated as the basis for a study of the answer to that question.

(Note that, for various reasons, the premium rates or cost ratios shown in the following tables are not mutually comparable, and do not furnish a basis for estimating the relative costs of the various compensation laws.)

AUSTRIA.*

	Net Cost of Accidents, P. C. of Wages.†	Cost of Administration, P. C. of Wages
1897.....	1.90	.185
1898.....	1.93	.188
1899.....	2.	.202
1900.....	2.04	.210
1901.....	1.96	.219
1902.....	1.97	.244
1903.....	1.91	.249
1904.....	1.96	.250
1905.....	2.05	.251
1906.....	2.06	.255
1907.....250
1909.....261
1910.....264
1911.....280‡

In Austria there has been no very material change in the law since the original enactment. Accepting the theory that the accident cost ratio falls temporarily in periods of depression and rises again correspondingly in periods of full industrial activity, these figures indicate a fairly steady increase therein.

*Twenty-fourth Annual Report of the Commissioner of Labor, Vol. I, pp. 142, 91.

†All insured establishments except those voluntarily insured.

‡This is pure current administration cost. Other outlays, uncollectible premiums, etc., raise this figure to .313, and losses on investments, etc., raise it to .39.

GERMANY.

Operations of the Industrial Accident Insurance Associations.*

Estimated Capitalized Values of Losses Per Annum in P. C. of Wages Insured.		Estimated Capitalized Values of Losses Per Annum in P. C. of Wages Insured.	
Year.		Year.	
1885.....	Incomplete	1899.....	1.75
1886.....	0.78	1900.....	1.77
1887.....	1.23	1901.....	1.96
1888.....	1.31	1902.....	1.90
1889.....	1.38	1903.....	1.98
1890.....	1.49	1904.....	1.97
1891.....	1.52	1905.....	1.92
1892.....	1.62	1906.....	1.83
1893.....	1.68	1907.....	1.82
1894.....	1.71	1908.....	1.90
1895.....	1.72	1909.....	1.79
1896.....	1.74	1910.....	1.58
1897.....	1.74	1911.....	1.48
1898.....	1.74		

These German figures show clearly the uselessness of the first full year's experience as a criterion for rate making. The indicated decrease in the loss ratio for the last few years is generally ascribed in Germany to a reduction of serious accidents. But probably it is also due partly to a stricter check upon impositions and abuses and to a more complete censuses of wages insured.

It should be noted that these figures do not cover the cost of compensation or (with the exception of a small proportion) of the medical care during the first 13 weeks after injury. Consequently they furnish no information about the losses from the short time injuries; and account for only a part of the losses from the long time injuries. We know that both the number and the ratio of short time industrial injuries have increased steadily in Germany; but the data relative to the losses therefrom are hidden in the mazes of the sickness insurance statistics. Consequently, in spite of the mass of published statistics, it is almost impossible to estimate the item in German experience that we are seeking. But it is sufficient to note from the foregoing table that the increase

*Villard's "Germany," p. 29.

in the ratio of losses from long time injuries has been tremendous in Germany. In the opinion of the writer this increase is due in large part to pension mania, etc., caused by the high rates of compensation and the facility with which pensions are acquired under the German law, and by a rigid adherence to the pension system, to the exclusion of lump sum settlements in appropriate cases.

FRANCE.

Operations of All Stock Companies.*

Year.	Average Premium Rate.	Resulting Loss or Profit.
1901.....	1.854	—4,206,739 francs
1902.....	1.832	—9,559,777
1903.....	1.958	— 742,127
1904.....	2.027	+3,676,348
1905.....	2.193	+1,155,938
1906.....	2.262	—1,397,809
1907.....	2.352	—6,036,712
1908.....	2.294	—2,941,512
1909.....	2.318	— 81,392
1910.....	2.337	— 233,146
1911.....	2.375	—4,708,108

In France the increase in the loss ratio is ascribed almost entirely to an increase in cost of short time injuries. Much of that increase has doubtless been due to the right of the employee to choose his own physician, which right was granted in terms in the original law and was conspicuously and effectually confirmed by a change in the penal law in 1905. That practice has caused abuses, that have increased the medical cost from about 12% in 1901 to nearly 18% in 1911, and moreover has induced prolonged disability from trifling hurts. An amendment to the law in 1904, which gives a right to compensation from the date of injury where incapacity extends beyond ten days, holds out a powerful incentive to prolong seeming incapacity until the expiration of the ten day period, and thereby has caused a further progressive increase in the cost of trifling injuries.

*Villard's "France, Holland and Switzerland," p. 18.

ITALY.*

Average Premium Per Workman Insured—Lire.		Average Premium Per Workman Insured—Lire.	
Year.		Year.	
1901.....	8.31†	1907.....	19.05†
1902.....	9.51†	1908.....	19.53†
1903.....	9.63†	1909.....	23.00‡
1904.....	15.88†	1910.....	22.22‡
1905.....	16.85†	1911.....	21.96‡
1906.....	17.49†		

A principal part of the enormous increase of the cost in Italy is generally attributed to abuses and impositions by the workmen and their agents and attorneys, to which the law lends itself by its numerous defects; see Villard's "Belgium, Norway, Sweden, Denmark and Italy," pp. 29-32.

*Villard's "Belgium, Norway, Sweden, Denmark and Italy," p. 26.

†For all insurance institutions.

‡For National Fund alone.

BELGIUM.

Operations of Companies Charging Level Rates.

Year.	Premiums in P. C. of Wages.*	P. C. of Losses to Premiums.†
1906.....	2.41	86.71
1907.....	2.56	105.15
1908.....	2.55	117.35
1909.....	2.53	115.97
1910.....	2.46	113.55
1911.....	2.62

Belgian experience indicates clearly the inadequacy of the first year's experience as a standard for future rate making. Further than that, the Belgian experience has been too brief to support definite conclusions. The business losses of the Belgian stock companies have been due to their failure to fix a sufficiently high rate at the beginning (induced by sharp competition with legally favored mutuals) rather than to any progressive increase in losses. But the Belgian law contains the vicious provision relative to the waiting period, explained under the French and British laws; and it is probable that the abuses to which it affords opportunity will soon develop in Belgium, and lead to a progressive increase in the cost of trifling injuries.

*Deduced from "Rapport sur Accidents du Travail," for 1909-1911, pp. 19 and 182; and ib. for 1905-1908, p. 192.

†"The Cost of Workmen's Compensation," Market World and Chronicle, N. Y., 1912, p. 11.

GREAT BRITAIN.*

Year.	Compensation
	Charge Per Person Employed.†
1909.....	6 s. 10 d.
1910.....	7 s. 8 d.
1911.....	8 s. 5 d.

The increase shown by these British figures is somewhat in excess of the increase in the ratio between losses and wages insured, because there has been some increase in average wages.

No British statistics are available from which to carry this table back of 1909; for the reason that the official British statistics are generally uncorrelated, besides being incomplete. Nor are private insurance statistics available; for the reason that workmen's compensation insurance in Great Britain is more comprehensive than in other countries, covering all employments instead of only industrial employments, and because insurance contracts are there much more varied in form, coverage, etc., than in the bureaucratic countries.

From hearsay, confirmed by such data as is available, it would appear that the premium rates published by the British companies for the first year after the Act of 1897 were higher than was necessary, and were generally cut; but that from such original basis the rates rose slowly until the Act of 1906 took effect. Thereafter the loss ratio has mounted fast and steadily, and the rates have followed. The ratio of fatal and serious accidents in industries has fallen; and the majority of experts incline to the opinion that there has been no increase in the rate of minor injuries. But there has been an abnormal increase in the number of successful claims for minor injuries and in the prolongation of disability from such injuries. To these two items the increase in cost is principally due. These abuses have been propagated by the provision of the law of 1906 which shortened the waiting period from two weeks to one week, thereby increasing the number of disabilities which are prolonged seemingly to last longer than one week, and to the provision that where disability lasts longer than two weeks compensation shall be paid from the date of the injury, which provision has immensely increased the pro-

*Market World and Chronicle, March 1, 1913.

†In shipping, factories, docks, mines, quarries, constructional works and railways.

portion of disabilities which are prolonged seemingly to last longer than two weeks. But, in addition, the disposition of the English courts to construe the law more liberally in favor of the workmen, so that now, for example, death or disablement from a long standing disease, brought to a crisis by a normal exertion or excitement of employment, is held to be compensable as an accident, has contributed materially to the progressive increase in cost.

NORWAY.

Operations of Insurance Department.*

Year.	Premiums in P. C. of Wages.	Losses in P. C. of Wages.
1895-6.....	1.37	1.89
1897.....	1.36	1.92
1898.....	1.36	1.94
1899.....	1.36	1.77
1900.....	1.68	1.83
1901.....	1.67	1.73
1902.....	1.64	1.56
1903.....	1.64	1.71
1904.....	1.65	1.60
1905.....	1.64	1.57
1906.....	1.64	1.63
1907.....	1.58	1.73
1908.....	1.56	1.56
1909.....	1.49	1.57
1910.....	1.51	1.71

The decrease in the apparent loss ratio between 1898 and 1899, indicated by the foregoing figures, was probably due in large part to a more extensive application of the insurance, effected during 1898, and to a stricter reporting of wages, first exacted in 1899.

The Norwegian statistics show the results of a political as distinguished from a business administration of insurance. Rates have never been based upon losses, either in the aggregate or in the particular. At the start the average premium rate was unduly low and adjustments were carelessly liberal. In order to meet the consequent deficit the average rate was raised and awards appear to have been scaled down. (Up to this stage the Norwegian experience parallels our experience with politically managed insurance in the State of Washington.) Later the average rate was again reduced below cost. From such an experience it is unsafe to draw any deductions.

*Villard's "Belgium, Norway, Sweden, Denmark and Italy," p. 13.

HOLLAND.

Year	Losses in P. C. of Wages.*	Expenses of Admin. in P. C. of Wages.†
1903.....	1.55	.19
1904.....	1.83	.26
1905.....	1.91	.36
1906.....	2.00	.39
1907.....	1.92	.41
1908.....	1.63	.41
1909.....	1.53	.42
1910.....	1.94	.37

In the preparation of this table it was necessary to use as a basis old estimates of losses, some of which have been subsequently revised. Consequently the margin of error in this table is exceptionally wide.

Accepting the theory that the loss ratio rises in periods of activity and falls in periods of depression, this table indicates that in the operation of the Dutch law, under average conditions, the ratio is steadily rising.

*Wages insured in State Bank, employers' mutual and stock companies and by employers' self-insurance—wages in public service insured by State Bank excluded.

†These are the expenses of the State Bank, to which all other insurers contribute. Office expenses, etc., of private insurers not covered.

CONCLUSIONS.

Studying the foregoing figures as a whole:

Generally it is to be noted that the cost for the first year or two is deceptively low. This is due to the fact that it takes time for the workingpeople to learn and appreciate the full extent of their rights and opportunities under a new law.

With the exception of Norway and Belgium, there has been or is in every country noted a steady increase in the cost (apart from immediate additions to the cost effected by amendments). In Norway the insurance practices have been too irregular and in Belgium the experience is still too short for any positive deductions.

Generally where the increase in cost is shown to be steady it is to be ascribed principally to the short time injuries; but the German figures, which relate almost exclusively to long time injuries, likewise show a steady increase up to most recent years.

Everywhere that a steady increase in cost (after the first year or two) is shown it can be traced principally to some demonstrated abuses or impositions, due to defects in the law or in the practices thereunder.

On the other hand, the loss ratio was comparatively steady in France up to and including 1904, at which date the floodgates against certain impositions were deliberately thrown wide open. And it is possible that Belgian experience may in time prove to be similar to the earlier French experience.

Consequently I believe that a compensation law, drawn so as to check known abuses and impositions, would, after the first few years, hold the loss ratio steady, and eventually would tend to reduce it by the reduction of accidents. Such a law, in my opinion, would be best for the workingpeople. For the principal sufferers from malingering are the workmen's families; and the principal beneficiaries of more gross abuses and impositions are that undeserving minority of the workingpeople who are temperamentally shirkers and parasites. And the increase in the cost of compensation insurance from abuses is economic waste, which ultimately must affect unfavorably the wages of the industrious workingpeople and their opportunities for employment.

But the political tendencies of the times are against the prevention of waste and abuses. Thus, for example, the New York act is so drawn as to invite every known abuse, with some two

or three exceptions. In this respect the Ohio law is even worse. And it seems probable that for a time and to some extent at least these laws will be our models.

Under such conditions it is practically certain that the cost of the compensation law will steadily increase (allowing for temporary reductions in periods of depression); and that, to be proper, insurance rates, once correctly adjusted, must be raised from year to year to cover that increasing cost.

